

UNIT – 1. INSURANCE CLAIMS:

Introduction- Need- Loss of stock policy-Steps for ascertaining Fire Insurance Claim-Treatment of Salvage-Average Clause-Treatment of Abnormal Items- Computation of Fire Insurance Claims.

Introduction:

Any loss suffered by a business due to fire or any other natural calamity can be compensated by taking an appropriate policy with an insurance company.

Insurance is a contract / an agreement between two parties where in one party undertakes in consideration for a certain periodical fixed amount called premium, to indemnify the other against certain amount of loss arising from the destruction of property by fire etc. This agreement when reduced into writing shall be called as a policy.

The person whose risk is covered is called the insured or assured and the company which agrees to indemnify the assured is called insurer. The consideration made, in return for which the insurer agrees to indemnify the loss is called premium. The word claim refers to demand money under an insurance policy after an accident, in accordance with the agreement.

A fire insurance policy is taken to cover the following types of losses-

1. Loss of stock by fire.
2. Loss of fixed assets by fire.
3. Loss of profits

CLAIM FOR LOSS OF STOCK:

When stock in trade is destroyed by fire, a claim can be lodged by the insured with the insurer for the loss of stock. Following steps are generally involved in the ascertainment of loss of stock by fire.

First Step:-

A) When stock records are maintained and saved from fire:-

The stock as on the date of fire is ascertained from the stock records and that will become the basis for claim.

B) When stock records are destroyed by fire or when they are not maintained:-

When stock records are not maintained or when the records that are maintained are destroyed by fire, the value of stock can be ascertained by preparing 'Memorandum Trading A/c' for the period between the beginning of the year and till the date of fire.

Memorandum Trading Account:-

It is nothing but a trading account which takes into account opening stock, net purchases up to the date of fire, direct expenses up to the date of fire, estimated gross profit on the debit side and net sales on the credit side. The balancing figure of Memorandum Trading A/c is the value of estimated stock as on the date of fire.

In case, if the rate of gross profit is not given a Trading A/c for the previous year should be prepared. It helps to find out the gross profit of the previous year. Then rate of gross profit can be ascertained as follows-

$$\text{Rate of Gross Profit} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

It is important to note that, while preparing the Memorandum Trading A/c, we should have to find out the normal rate of gross profit.

Second Step:-

Calculation of value of stock destroyed by fire:-

	Rs.
Estimated value of stock as on the date of fire	xxxxx
Less: Salvage	----
Loss of stock by fire	xxxxx

Third Step:-

Calculation of Amount of Claim:-

a) When there is no average clause or when the goods are fully insured:-

The stock lost by fire will be the amount of claim.

b) When there is average clause or incase of under insurance:-

The amount of claim is ascertained by applying the following formula-

$$\frac{\text{Loss of Stock by fire}}{\text{Value of Stock on the date of fire}} \times \text{Sum Insured}$$

Salvage:-

Salvage refers to the goods that are saved from fire.

Under Insurance:-

It refers to an Insurance Contract where the stock insured will be less than the actual value of stock.

Average Clause:-

An average clause in a fire insurance contract is applicable when there is under insurance and it is applied to discourage under insurance. The average clause limits the liability of the insurer to that proportion of actual amount of loss which the sum insured bears to the total value of stock affected by fire.

Proforma of Memorandum Trading Account:-

Dr	Memorandum Trading A/c Up to _____		Cr
To, Opening Stock	Rs xxxxx	By, Sales (Net)	Rs xxxxx
To, Purchases (Net)	xxxxx	By, Closing Stock	
To, Wages	xxxxx	on the date of fire	xxxxx
To, Carriage inwards	xxxxx	(balancing figure)	
To, Manufacturing Expenses	xxxxx		
To, Any other direct Expenses	xxxxx		
To, Gross Profit (% on Sales)	xxxxx		
	XXXX		XXXX

ABNORMAL ITEMS:

Abnormal items are those goods which cannot be sold at the normal price or has a slow rate of turnover. At the time of calculation of gross profit the value of such goods are excluded from purchases, sales and stock. However, if such an item is also destroyed by fire along with normal stock, the cost of such items can also be included in the claim.

Problems on Insurance Claims:

Problem-1.

A fire broke out in the godown of Mr. Agni on 15-07-2012 and entire stock of goods was destroyed. Mr. Agni had insured the stock fully. From the following particulars, calculate the amount of claim.

Stock on 01-04-2012- Rs.88,000.

Purchases from 01-04-2012 to 15-07-2012- Rs.2,00,000.

Sales from 01-04-2012 to 15-07-2012- Rs.1,92,000.

Mr. Agni earns a gross profit of 20% on sales normally.

Problem-2.

A fire occurred in the business of Mr. Indra on 10-10-2011 and Rs.21,500 worth of stock was saved from fire. Stock as per Trading A/c as on 31-03-2011 was Rs.1,80,000.

Purchases from 1-4-2011 to 10-10-2011 amounted to Rs.2,23,000. Sales from 1-4-2011 to 10-10-2011 amounted to Rs.2,60,000.

On the basis of the past 3 years the average gross profit is 25%. Calculate the amount of claim.

Problem-3.

Mr. Chandra had insured his goods fully. A fire broke out in his godown resulting in a heavy loss of goods on 21-09-2012. Goods of the value of Rs.10,000 were saved. From the following information, calculate the amount of claim.

Stock on 1-4-2012 Rs.46,000, Purchases from 1-4-2012 to 21-09-2012 Rs.4,00,000, Sales from 1-4-2012 to 21-09-2012 Rs.3,60,000, Returns during the year— Sales- Rs.8,000, Purchases- Rs.6,000.

On the observation of past records the gross profit for the preceding 3 years were 15%, 20% and 25%. The expenses incurred to extinguish fire amounted to Rs.2,000.

Problem-4.

Mr. Surya had insured his stock-in-trade with United Insurance Co. A fire broke out on 12-12-12 destroying most part of his godown and stock salvaged was worth Rs.4,000. Stock on 1-4-12 was Rs.1,90,000, Purchases from 1-4-12 to 12-12-12 was Rs.2,80,000, Sales from 1-4-12 to 12-12-12 was Rs.4,60,000.

The opening stock was overvalued by Rs.10,000 and sales includes Rs.16,000 being sale of furniture. Mr. Surya normally enjoyed a gross profit of 25% on his sales. Find out the amount of claim.

Problem-5.

A fire broke out in the godown of Mr. Rahu on 24-08-2009 and goods worth Rs.16,000 was saved. From the following information, calculate the amount of claim.

Purchases during 2008-09 Rs.1,80,000, Sales during 2008-09 Rs.2,55,000, Purchases from 1-4-2009 to 24-08-2009 Rs.60,000, Sales from 1-4-2009 to 24-08-2009 1,05,000, Stock on 1-4-2008 Rs.80,000, Stock on 31-03-2009 Rs.1,00,000, Stock on 31-03-2009 was overvalued by Rs.5,000.

Problem-6.

A fire occurred in the godown of Mr. Kethu on 20-05-2009 and the stock worth Rs.35,000 was salvaged. The following information was available from the books and records saved.

Purchases for the period ended 31-12-2008 Rs.3,60,000.

Sales for the period ended 31-12-2008 Rs.5,65,000.

Purchases from 01-01-2009 to 19-05-2009 Rs.1,25,000.

Sales from 01-01-2009 to 19-05-2009 Rs.1,90,000.

Stock on 31-12-2007 Rs.1,60,000 and on 31-12-2008 Rs.1,90,000.

Opening stock on 01-01-2008 was overvalued by Rs.10,000.

Closing stock on 31-12-2008 was undervalued by Rs.10,000.

Find out the amount of claim.

Problem-7.

On 10-07-2010 a fire occurred in the premises of Mr. Budha and the entire stock except of Rs.22,500 was destroyed by fire. The stock was fully insured. From the following particulars ascertain the amount of claim.

Stock on 01-04-2010 Rs.1,25,000, Purchases from 01-04-2010 to 10-07-2010 Rs.5,10,000 and Sales from 01-04-2010 to 10-07-2010 R.5,90,000.

The rate of gross profit on sales for the previous 4 years were 30%, 32%, 30%, 32% respectively.

Problem-8.

Mr. Guru had taken a fire insurance policy for Rs.80,000 to his stock-in-trade. A fire occurred on 31-12-2008 and the stock was destroyed with the exception of Rs.21,000. The following information is available in respect of the above.

Stock on 1-4-2008 Rs.30,000, Sales from 1-4-2008 to 31-12-2008 Rs.90,000, Carriage inwards Rs.5,000, Purchases from 1-4-2008 to 31-12-2008 Rs.1,37,500.

Average rate of gross profit was 33 1/3%. The policy was subject to Average Clause. Calculate the loss of stock and amount of claim.

Problem-9.

On 15-06-2012 the premises and stock of Mr. Sukra was destroyed by fire but the accounting records were saved from which the following information was obtained.

Stock on 1-1-2011 Rs.1,47,000, Stock on 31-12-2011 Rs.1,63,800, Purchases from 1-1-2012 to 15-06-2012 Rs.3,24,000, Sales from 1-1-2012 to 15-06-2012 Rs.4,62,400, Purchases for the year 2011 Rs.7,96,000, Sales for the year 2011 Rs.9,74,000. The Stock salvaged was Rs.10,600. Compute the amount of claim.

Problem-10.

A fire occurred in the godown of Mr. Vakra on 10-09-2009. The salvage was estimated at Rs.25,000. From the following information, you are required to ascertain the amount of claim. Stock on 1-4-2008 Rs.72,000, Stock on 31-03-2009 Rs.1,35,000, Purchases during 2008-09 Rs.9,70,000, Sales during 2008-09 Rs.12,00,000. Purchases from 1-4-2009 to 10-09-2009 Rs.4,60,000, Sales during the same period Rs.6,00,000. Mr. Vakra had valued his stock always at cost less 10%.

Problem-11

A fire broke out in the warehouse of Srichakra Ltd., on 30-06-2010. The Co. intends to file an insurance claim for the loss of stock and provides the following information. Debtors on 1-4-2010 Rs.80,000, Cash received from debtors Rs.2,90,000, Debtors on 30-06-2010 Rs.60,000, Stock on 1-4-2010 Rs.30,000, Purchases from 1-4-2010 to 30-06-2010 Rs.2,50,000.

Normal rate of gross profit was 20% on sales. Find out the amount of claim.

Problem-12.

Fire occurred in the premises of Mr. Shani on 10th March 2012. In order to make a claim on their policies in respect of stock, they ask your advice and you are able to obtain the following information.

Particulars	2009 Rs.	2010 Rs.	2011 Rs.	2012 Rs.
Opening stock valued	76,000	1,14,000	1,52,000	76,000
Purchases	3,60,000	4,30,000	4,60,000	1,50,000
Sales	5,60,000	7,00,000	8,00,000	2,60,000
Wages & Manufacturing expenses	1,50,400	1,91,000	1,40,000	45,000
Closing stock	1,14,000	1,52,000	76,000	-

The Stock salvaged was Rs.15,400.

It was practice of the firm to value the stock at 5% less cost. Determine the amount of claim to be recovered from Insurance Company.

Problem-13.

A large portion of records and stock of a trading concern was lost due to a fire accident on 15-04-2010. Later goods worth Rs.16,000 and some records were salvaged from the fire. The following details are available from these records-

Period	Sales in Rs.	Gross Profit in Rs.
2005	17,20,000	4,30,000
2006	14,20,000	4,26,000
2007	12,00,000	4,00,000
2008	11,00,000	3,74,000
2009	9,60,000	3,20,000

On 31-12-2009 stock was valued at Rs.1,94,000. From 1-1-2010 to the date of fire purchases, sales and wages were Rs.1,50,000, 3,18,000 and 60,000 respectively. Prepare a statement of claim.

Problem-14.

On 1-4-2009, a fire destroyed the stock of M/s Sunsilks Ltd. From the records saved the following information was obtained-

Stock on 1-1-2008 Rs.45,000 and on 1-1-2009 Rs.55,000, Purchases for 2008 Rs.1,29,250 and for 3 months up to 31-03-2009 Rs.60,000. Sales for 2008 Rs.1,70,000 and for 3 months up to 31-03-2009 Rs.1,00,000. Manufacturing expenses for 2008 Rs.21,000, Manufacturing expenses for 3 months - ?.

In Feb-2010, goods valued at a sale price of Rs.5,000 were distributed as free samples. Manufacturing expenses were normally found to be constant. Salvage was Rs.7,000.

Prepare a statement of claim.

Problem-15.

A fire occurred in the premises of Mr. Moon on 1-4-2010 and considerable part of stock was destroyed. The stock salvaged was Rs.28,000. Mr. Moon had taken a fire insurance policy for Rs.1,71,000 to cover the loss of stock by fire.

You are required to ascertain the amount of claim from the following information-

Purchases for 2009 Rs.9,38,000, Sales for 2009 Rs.11,60,000, Purchases from 1-1-2010 to 1-4-2010 Rs.1,82,000, Sales for the same period Rs.2,40,000, Stock on 1-1-2009 Rs.1,44,000, Stock on 31-12-2009 Rs.2,42,000, Wages paid for 2009 Rs.1,00,000, Wages paid from 1-1-2010 to 1-4-2010 Rs.18,000.

Mr. Moon in June 2009 consigned Rs.50,000 worth goods which was unfortunately lost in transit. Since there was no insurance cover the loss had to be borne by him in full.

Stock at the end of each year and till the end of the calendar year 2008, had been valued at cost less 10%. From 2009, however there was a change in the valuation of closing stock which was ascertained by adding 10% of the cost.

Problem-16.

Due to fire in the godown of M/s Angaraka Manufacturing Co. on 31-12-2008, the entire stock was burnt except to the value of Rs.11,446.

The following information was available from the books-

Creditors for goods supplied on 31-12-2007 Rs.21,984 and on 31-12-2008 Rs.22,922.

Debtors for goods sold on 31-12-2007 Rs.32,210 and on 31-12-2008 Rs.30,542.

Payments to suppliers in 2008 Rs.1,71,754 and Receipts from customers in 2008 Rs.2,42,874. Stock in trade at cost on 31-12-2007 Rs.52,608.

The Co. sells its goods at prices yielding a gross profit of 50% on purchase price. The stock was insured for Rs.48,372. Ascertain the amount of claim.

Problem-17.

On 17-06-2006, a fire occurred in the premises of Mr. Sunflower, a book seller. Stock salvaged being Rs.22,400. In addition some stock was salvaged in damaged condition and its value was agreed at Rs.20,800. The following particulars were available-

Stock at close of a/cs on 31-03-2006 Rs.1,67,000, Purchases from 1-4-2006 to 17-06-2006 Rs.2,24,000, Sales during the same period Rs.3,08,000.

On the basis of past 3 years it appears that a gross profit of 25% on sales is earned. Stock was insured for Rs.1,50,000.

Problem-18.

A fire occurred in the godown of Sunfeast Ltd. On 22-10-2005 and the stock was damaged. The Co. made up its accounts on 31st December each year and on 31-12-2004, stock at cost was Rs.53,088 as against Rs.38,456 on 31-12-2003.

Purchases from 1-1-2005 to 22-10-2005 was Rs.1,39,308 as against Rs.1,81,032 for the full year 2004 and the corresponding figures of sales were Rs.1,96,680 and Rs.2,08,000 respectively.

You are given the following further information-

1. In April 2004, goods which cost Rs.4,000 were given away as free samples. No entry being made in the books.
2. During 2005, a clerk had mis-appropriated cash sales. It is estimated that the unrecorded sales averaged Rs.40 per week from 1-1-2005 to 21-05-2005 when the clerk was removed from service.
3. Rate of gross profit is constant.

Problems on Abnormal Items:-

Problem-19.

On 30-09-2005, the stock of Sunrise Ltd, was lost in a fire accident. From the available records, Prepare a statement of claim-

Stock at cost on 1-04-2004 Rs.75,000 and on 31-03-2005 Rs.1,04,000, Purchases less returns for the year ended 31-03-2005 Rs.5,07,500, Sales less returns for the year ended 31-03-2005 Rs.6,30,000, Purchases less returns up to 30-09-2005 Rs.2,90,000, Sales less returns up to 30-09-2005 Rs.3,68,100.

In valuing the stock on 31-03-2005 due to obsolescence 50% of the value of stock which originally cost Rs.12,000 had been written off. In May 2005, 3/4th of this stock had been sold at 90% of the original cost and it is now expected that the balance of obsolete stock would also realize the same price. Subject to the above the gross profit had remained uniform throughout. Stock to the value of Rs.14,400 was salvaged.

Problem-20.

Mr. SunGod owns a retail stores which was partly destroyed by fire on 26-06-2006. The stock was insured for Rs.26,000.

The Balance Sheet drawn on 31-12-2005 includes the following items-

Stock Rs.25,000, Creditors Rs.7,000.

On examination of books of accounts for the subsequent period up to the date of fire, the following particulars were obtained-

Sales Rs.1,77,600, Payments to creditors for goods Rs.1,50,000, Creditors on 27-06-2006 Rs.3,600.

A physical check of stock after the fire showed the items damaged worth Rs.14,000. The normal rate of gross profit is 25% on cost but the stock on 31-12-2005 included items of discontinued line totaling Rs.7,600 which were all sold during the next 2 months at cost.

You are required to compute the amount of claim to be made to the insurer.

Problem-21.

On 15-06-2009, the premises of Mr. Suryakiran were destroyed by fire but sufficient records were saved from which the following information was obtained.

Stock on 1-1-2008 Rs.1,47,000 and on 31-12-2008 Rs.1,59,200. Purchases less returns for the year ended 31-12-2008 Rs.7,96,000 and Sales less returns for the same period Rs.9,74,000. Purchases from 1-1-2009 to 15-06-2009 Rs.3,24,000 and Sales less returns for the same period Rs.4,62,400.

In valuing stock for the Balance Sheet on 31-12-2008 Rs.4,600 had been written off of certain stock which was a poor selling line having a cost of Rs.13,800. A portion of these goods were sold in March 2009 at a loss of Rs.500 on the original cost of Rs.6,900. The balance of this stock was now estimated to be worth the original cost. Subject to the above exception, gross profit had remained uniform throughout the year.

The salvaged stock was Rs.11,600. Ascertain the amount of claim.

Problem-22.

On 1-4-2008, the godown of Mr. Chandrakiran was destroyed by fire. From the books of accounts, the following particulars were gathered-

Stock on 1-1-2007 and on 31-12-2007 was Rs.27,570 and Rs.51,120 respectively. Purchases and Sales during 2007 was Rs.2,71,350 and Rs.3,51,000 respectively.

Purchases from 1-1-2008 to 1-4-2008 Rs.75,000. Sales for the same period Rs.91,500 and salvage was Rs.6,300.

Goods which originally cost Rs.3,600 had been valued at Rs.1,500 on 31-12-2007. These were sold in March 2008 for Rs.2,700. Except to this transaction the rate of gross profit had remained constant.

On 31-3-2008 goods worth Rs.15,000 had been received by the godown keeper but had not been entered in purchases account.

Calculate the value of goods destroyed by fire.

Problem-23.

M/s Mangalaya Ltd., suffered loss of stock due to fire on May 15, 2008. From the following information, prepare a statement showing the claim to be lodged.

Stock on 1-1-2007 Rs.38,400; Purchases during 2007 Rs.1,60,000; Sales during 2007 Rs. 2,02,600; Closing stock on 31-12-2007 Rs. 31,800; Purchases from 1-1-2008 to 15-05-2008 Rs.54,000; Sales from 1-1-2008 to 15-05-2008 Rs.61,400.

An item of stock purchased in 2006 at a cost of Rs.10,000 was valued at Rs.6,000 on 31-12-2006. Half of this stock was sold in 2007 for Rs.2,600, the remaining was valued at Rs.2,400 on 31-12-2007. One fourth of the original stock was sold in March 2008 for Rs.1,400 and the remaining stock was considered to be worth 60% of the original cost. Salvage was Rs.12,000. The amount of policy was Rs.30,000 and there was an average clause in the policy.